

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

# **Southeast Macomb Sanitary District**

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**Financial Report  
with Supplemental Information  
June 30, 2007**

# **Southeast Macomb Sanitary District**

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## Independent Auditor's Report

To the Board of Directors  
Southeast Macomb Sanitary District

We have audited the accompanying basic financial statements of Southeast Macomb Sanitary District (the "District") as of June 30, 2007 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Southeast Macomb Sanitary District at June 30, 2007 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and schedule of operating expenses (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the other supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on Southeast Macomb Sanitary District's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

December 12, 2007

# **Southeast Macomb Sanitary District**

## **Management's Discussion and Analysis**

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### **Using this Annual Report**

Southeast Macomb Sanitary District (the "District") is a joint venture of three cities located in Southeast Macomb County: Eastpointe, Roseville, and St. Clair Shores. The primary role of the District is to operate a sewage transportation system for these communities. This annual report consists of a series of financial statements. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the District. These are followed by the statement of cash flows, which presents detailed information about the changes in the District's cash position during the year.

### **Financial Overview**

In analyzing the District's financial position, it is important to recognize the mission of the District. From a financial perspective, the District's core objective is to manage the long-term costs of sewage disposal for its three member cities. In essence, the District acts as a conduit for its three members. Over time, the amounts to be charged to its members will be equal to the District's costs of providing sewage transportation and treatment and maintaining reserves for upgrading the efficiency of the system's infrastructure.

### **Condensed Financial Information**

The following tables present condensed information about the District's financial position compared to the prior year. Overall, net assets increased by approximately \$1,100,000. This was mainly due to the combined effect of liabilities decreasing by approximately \$34,000 and assets increasing by approximately \$1,066,000 from the prior year. The increase in assets was mainly due to continued strong interest income earnings and additional operating income in the current year and the prior year. The District was able to retain more of its cash reserves in the current year as well, due to less being spent on capital needs. In the prior year, the majority of the enhanced venting system was paid. Overall, net income in the current year decreased from the prior year by approximately 39 percent. This decrease in net income is mainly due to the increase in the cost of disposal of 3 percent combined with the decrease in operating revenue-treatment fees of approximately 3 percent. Even with this decrease in operating income, the District still added approximately \$1,100,000 to its net assets in the current year.

The increase to its net assets was mainly due to the increase in nonoperating income due to realized interest income increasing by approximately \$89,000 from the prior year, or 16 percent. This was mainly caused by an increase in cash reserves combined with a higher rate of realized returns being earned in the current year. During the current year, the District diversified its investments while staying fully in compliance with Public Act 20. The District's investment policy goals are to maximize its investment returns while ensuring safety and liquidity with its investment choices.

# Southeast Macomb Sanitary District

## Management's Discussion and Analysis (Continued)

	Year Ended June 30		Change	
	2007	2006	Amount	Percent
<b>Assets</b>				
Current assets	\$ 17,332,866	\$ 16,118,723	\$ 1,214,143	8
Capital assets	5,952,065	6,099,912	(147,847)	-2
Total assets	23,284,931	22,218,635	1,066,295	5
<b>Liabilities</b>				
Current liabilities	2,899,472	2,940,069	(40,597)	-1
Accumulated employee benefits	65,873	59,688	6,185	10
Total liabilities	2,965,345	2,999,757	(34,412)	-1
<b>Net Assets</b>				
Invested in capital assets - Net of debt	5,952,065	6,099,912	(147,847)	-2
Unrestricted	14,367,521	13,118,966	1,248,555	10
Total net assets	<u>\$ 20,319,586</u>	<u>\$ 19,218,878</u>	<u>\$ 1,100,708</u>	6

	Year Ended June 30		Change	
	2007	2006	Amount	Percent
<b>Operating Revenue - Treatment fees</b>	\$ 14,031,756	\$ 14,406,002	\$ (374,246)	-3
<b>Operating Expenses</b>				
Cost of sewage disposal	12,363,256	12,041,783	321,473	3
Operation and maintenance	915,921	921,680	(5,759)	-1
Administrative and other	195,088	201,288	(6,200)	-3
Total operating expenses	13,474,265	13,164,751	309,514	2
<b>Nonoperating Revenue</b>	543,217	552,980	(9,763)	2
<b>Net Income</b>	<u>\$ 1,100,708</u>	<u>\$ 1,794,231</u>	<u>\$ (693,523)</u>	-39

# **Southeast Macomb Sanitary District**

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## **Management's Discussion and Analysis (Continued)**

### **Capital Asset and Infrastructure Planning**

During the current year, the District completed a new capital improvement project. This project created an enhanced interceptor venting system to improve the odor problem at Nine Mile Road and Jefferson Road. The cost of this project was paid for mainly by net asset reserves.

### **Economic Factors and Next Year's Budgets and Rates**

The District plans to increase rates only to the extent necessary to cover anticipated rate increases passed on by Wayne County.

Thus, operating costs will be largely dependent on the volume of sewage flow which is projected to remain fairly consistent to the prior year and with overall projected rate increases consistent with the rate of inflation of approximately 3.3 percent for the next fiscal year.

### **Contacting the District's Management**

This financial report is intended to provide our member cities with a general overview of the District's finances and to show the District's accountability for the money it receives from the member cities. If you have questions about this report or need additional information, we welcome you to contact the District's offices.

# **Southeast Macomb Sanitary District**

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## **Statement of Net Assets June 30, 2007**

### **Assets**

Cash and cash equivalents (Note 3)	\$ 2,175,681
Investments (Note 3)	12,287,109
Accounts receivable	2,834,946
Prepaid insurance	35,130
Capital assets (Note 4):	
Subject to depreciation	5,872,822
Not subject to depreciation	<u>79,243</u>
Total assets	23,284,931

### **Liabilities**

Accounts payable	2,896,765
Accrued payroll and related taxes	2,707
Accumulated employee benefits	<u>65,873</u>
Total liabilities	<u>2,965,345</u>

### **Net Assets**

Invested in capital assets	5,952,065
Unrestricted	<u>14,367,521</u>
Total net assets	<u><u>\$ 20,319,586</u></u>

# **Southeast Macomb Sanitary District**

## **Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007**

<b>Operating Revenue</b> - Treatment fees	\$ 14,031,756
<b>Operating Expenses</b>	
Cost of sewage disposal	12,363,256
System maintenance and operation	915,921
General and administrative	22,865
Depreciation	<u>172,223</u>
Total operating expenses	<u>13,474,265</u>
<b>Operating Income</b>	557,491
<b>Nonoperating Revenue (Expenses)</b>	
Interest income	636,436
Unrealized loss in fair value	<u>(93,219)</u>
Total nonoperating revenue	<u>543,217</u>
<b>Net Income</b>	1,100,708
<b>Net Assets</b> - Beginning of year	<u>19,218,878</u>
<b>Net Assets</b> - End of year	<u><u>\$ 20,319,586</u></u>

# Southeast Macomb Sanitary District

## Statement of Cash Flows Year Ended June 30, 2007

### Cash Flows from Operating Activities

Cash received from customers	\$ 13,926,420
Cash payments to suppliers for goods and services	(12,392,830)
Cash payments to employees for services	<u>(940,947)</u>

Net cash provided by operating activities 592,643

### Cash Flows from Capital and Related Financing Activities -

Purchase of fixed assets	(24,319)
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### Cash Flows from Investing Activities

Interest received on investments	689,619
Net sale and maturities of investments	<u>(10,034,753)</u>

Net cash used in investing activities (9,345,134)

Net Decrease in Cash and Cash Equivalents (8,776,810)

Cash and Cash Equivalents - July 1, 2006 10,952,491

Cash and Cash Equivalents - June 30, 2007 \$ 2,175,681

### Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 557,491
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation expense	172,223
Changes in assets and liabilities:	
Increase in accounts receivable	(105,336)
Increase in prepaid expenses	(6,999)
Decrease in accounts payable	(29,574)
Increase in accrued liabilities	<u>4,838</u>

Net cash provided by operating activities \$ 592,643

Noncash investing, capital, and financing activities - During the year ended June 30, 2007, the District experienced an unrealized loss on its investments fair market value of approximately \$93,200.

# **Southeast Macomb Sanitary District**

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## **Notes to Financial Statements June 30, 2007**

### **Note 1 - Nature of Business and Significant Accounting Policies**

Southeast Macomb Sanitary District (the "District") provides sewage disposal services to three participating municipalities in Macomb County, Michigan.

The District is governed by a three-member board appointed by the participating communities.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America applicable to an Enterprise Fund of a governmental unit. Accordingly, the accrual basis of accounting is followed by the District. In accordance with accounting principles generally accepted in the United States of America, there are no component units to be included in these financial statements.

**Fixed Assets** - Fixed assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method.

**Cash Equivalents** - For the purpose of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents

**Investments** - Investments are recorded at fair value, based on quoted market prices.

Other accounting policies are disclosed in other notes to the financial statements.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Noncompliance with Legal or Contractual Provisions** - The District has not currently adopted a formal policy to make and accept electronic fund transfers (ACH payments). A formal policy is required under Public Act 738.

### **Note 3 - Cash and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

# Southeast Macomb Sanitary District

## Notes to Financial Statements June 30, 2007

### Note 3 - Cash and Investments (Continued)

In addition to the District investing in accordance with Public Act 20 of 1943, the District also states in its investment policy that it will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 60 percent of the District's investment portfolio will be invested in a single type or with a single financial institution.

The District has designated two banks for the deposit of its funds. The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District has not specifically addressed a deposit policy for custodial credit risk. At year end, the District had \$261,983 of bank deposits (checking and savings accounts) that was uninsured and uncollateralized. The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has not specifically addressed a policy for custodial credit risk of investments. At year end, the following investment securities were uninsured and unregistered, with securities held by the counter party or by its trust agency not in the District's name:

Type of Investment	Carrying Value	How Held
Corporate fixed income	\$ 1,796,647	Counterparty
U.S. government and agency securities	12,287,109	Counterparty

# Southeast Macomb Sanitary District

## Notes to Financial Statements June 30, 2007

### Note 3 - Cash and Investments (Continued)

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District's policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average weighted maturity for investments was as follows:

Investment	Fair Value	Weighted Average Maturity (Years)
<b>U.S. Government and Agency Securities</b>		
Treasury notes	\$ 399,812	1.88
Federal Farm Credit Bank	501,450	0.59
Federal Home Loan Bank	8,179,894	1.73
Federal Home Loan Mortgage Corp	1,198,310	0.47
Federal National Mortgage Association	2,007,643	1.74

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy is consistent with the state law limits. As of year end, the credit quality ratings of debt (other than the U.S. government) securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Treasury agencies	\$ 399,812	AAA	Moody
U.S. federal agencies	11,887,297	AAA	Moody

**Concentration of Credit Risk** - The District states in its investment policy that it will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 60 percent of the District's investment portfolio will be invested in a single type or with a single financial institution. At year end, the District had the following investment concentrations:

<b>U.S. Government and Agency Securities</b>	
Treasury notes	3%
Federal Farm Credit Bank	4%
Federal Home Loan Bank	67%
Federal Home Loan Mortgage Corp	10%
Federal National Mortgage Association	16%

# Southeast Macomb Sanitary District

## Notes to Financial Statements June 30, 2007

### Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	2006	Transfers	Additions	Disposals/ Adjustments	2007
Capital assets not being depreciated:					
Land	\$ 79,243	\$ -	\$ -	\$ -	\$ 79,243
Construction in progress	168,877	(168,877)	-	-	-
Subtotal	248,120	(168,877)	-	-	79,243
Capital assets being depreciated:					
Pump station	2,926,919	-	-	-	2,926,919
Interceptor	512,292	168,877	18,752	-	699,921
Sewer improvements	3,622,070	-	-	-	3,622,070
Nine Mile plant	37,887	-	-	-	37,887
Improvements	200,636	-	-	-	200,636
Paving and sewer	17,661	-	-	-	17,661
Trucks and equipment	46,191	-	-	(4,325)	41,866
Furniture and equipment	59,704	-	5,567	(13,232)	52,039
Subtotal	7,423,360	168,877	24,319	(17,557)	7,598,999
Less accumulated depreciation for:					
Pump station	(829,846)	-	(60,754)	-	(890,600)
Interceptor	(298,648)	-	(24,179)	-	(322,827)
Sewer improvements	(142,441)	-	(72,441)	-	(214,882)
Nine Mile plant	(36,769)	-	(224)	-	(36,993)
Improvements	(169,479)	-	(5,735)	-	(175,214)
Paving and sewer	(17,661)	-	-	-	(17,661)
Trucks and equipment	(18,107)	-	(8,162)	4,325	(21,944)
Furniture and equipment	(58,617)	-	(728)	13,289	(46,056)
Subtotal	(1,571,568)	-	(172,223)	17,614	(1,726,177)
Net capital assets being depreciated	5,851,792	168,877	(147,904)	57	5,872,822
Total capital assets - Net of depreciation	\$ 6,099,912	\$ -	\$ (147,904)	\$ 57	\$ 5,952,065

# Southeast Macomb Sanitary District

## Notes to Financial Statements June 30, 2007

### Note 5 - Defined Benefit Pension Plan

**Plan Description** - The District has an agent defined benefit pension plan that is administered by an independent insurance company and covers substantially all employees. The plan provides retirement and death benefits to plan members and their beneficiaries.

**Funding Policy** - The funding policy provides for periodic employer contributions of actuarially determined amounts that are intended to accumulate sufficient assets to pay benefits when due.

**Annual Pension Cost** - For the year ended June 30, 2007, the District's annual pension cost of \$137,690 for the plan was equal to the District's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005 using the individual aggregate actuarial funding method. The aggregate actuarial cost method does not identify or separately amortize the unfunded actuarial liability. The significant actuarial assumptions used include (a) a 6 percent investment rate of return and (b) projected salary increases of 6 percent per year. The actuarial value of assets was determined using fair market value.

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2005	2006	2007
Annual pension cost (APC)	\$ 104,738	\$ 98,363	\$ 137,690
Percentage of APC contributed	100	100	100
Net pension obligation	\$ -	\$ -	\$ -

### Note 6 - Postemployment Benefits

The District provides healthcare benefits to all full-time employees upon retirement. Currently, eight retirees are receiving benefits. The District includes retirees and their dependents in its insured healthcare plan with no contribution required by the participants. The total expense for postemployment healthcare benefits, which is recognized as insurance premiums become due, amounted to approximately \$41,800 for the year ended June 30, 2007.

# **Southeast Macomb Sanitary District**

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## **Notes to Financial Statements June 30, 2007**

### **Note 6 - Postemployment Benefits (Continued)**

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year beginning July 1, 2009.

### **Note 7 - Risk Management**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers’ compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for medical and life insurance claims and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers’ compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase excess commercial insurance coverage and to pay member claims in excess of deductible amounts.

## **Other Supplemental Information**

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# **Southeast Macomb Sanitary District**

## **Schedule of Operating Expenses Year Ended June 30, 2007**

### **System Maintenance and Operation Expenses**

Salaries and wages	\$ 390,686
Pension expense	143,190
Payroll taxes	26,817
Hospitalization	137,540
General insurance	47,307
Life insurance	1,284
Dental and optical insurance	185
Repairs and replacement	90,011
Telephone	3,976
Utilities	8,170
Office supplies and expense	4,595
Fuel and oil	6,434
Engineering	52,762
Miscellaneous expenses	<u>2,964</u>

Total system maintenance and operation expenses **\$ 915,921**

### **General and Administrative Expenses**

Board meetings	\$ 2,040
Professional fees	18,634
Miscellaneous expense	<u>2,191</u>

Total general and administrative expenses **\$ 22,865**



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December 12, 2007

To the Board of Directors  
Southeast Macomb Sanitary District  
St. Clair Shores, MI 48080

Dear Board Members:

Beginning with this year's audit, national auditing standards now call for auditors to communicate matters to the governing body that may be useful to you in your oversight of the financial statements of Southeast Macomb Sanitary District (the "District"). Specifically, they require us to report internal control issues to you that may be relatively minor, in order to allow you to evaluate their significance and make any changes you may deem appropriate. The purpose of these new standards is to allow you an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this new report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the District as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

### **Segregation of Duties**

Strong internal controls attempt to segregate the three duties associated with custody, authorization, and recordkeeping for any transaction. Incompatible functions place a person in the position to both perpetrate and conceal errors or fraud in the normal course of his or her duties. Due to its limited staff size, the District does not have an adequate segregation of accounting duties due to one individual performing the three duties noted above. The District's board has worked to mitigate the risk noted above by reviewing all disbursements before being remitted, initiating wire transfers, and reviewing overall cash balances and bank statements. However, in order to further strengthen the controls, we suggest that a timely secondary review of the bank reconciliations be done monthly, including evidence through a sign-off and date of this procedure by another member of the District's management or board. We would also suggest that journal entries posted monthly be reviewed by another member of the District's management or board and any change to pay rates or employee status be reviewed by another member of the District's management or board each payroll period. These enhanced procedures could help to identify errors in a timely manner and improve the overall controls at the District.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a material weakness in internal control:

### **Capital Assets**

During the current audit year, it was discovered that the District had capital assets on its books that are no longer in existence. While the District has chosen for Plante & Moran to depreciate the District's fixed assets on a Plante & Moran depreciation program, Plante & Moran relies on management at the District to keep us informed of capital asset additions and deletions so that the fixed asset detail is kept up to date. Every year during the audit, we are required to and do inquire of the District if there are any assets that were added, disposed, or impaired. The District may want to consider a formal communication between departments when a fixed asset status has changed. While this year's adjustment did not result in a material misstatement to the financial statements, we believe without the proper attention on this listing, there is a more than remote likelihood that a material misstatement would not be prevented or detected by the District.

## **Accounting Assistance**

### **Accrual Adjustments**

The board of directors of the District and its staff maintain the books on a cash-type basis during the course of the year. The District has continued to assume increasing responsibilities for the calculation and posting of year-end accrual entries by providing the District's staff with quarterly accounting assistance from an outside source. The District has historically enlisted the Plante & Moran auditors to assist in determining the remaining accrual adjustments to the accounting records at the end of the year. In the current year, the board was able to use the quarterly accounting assistance to post all required year-end entries which allowed the Plante & Moran auditors to have minimal adjustments at year end. This enhancement to year-end procedures helped to ensure compliance with the new auditing standards effective for this year's audit. The board has determined that the processes implemented by the District result in the most cost-effective and value-added method of complying with the requirements for full accrual statements.

### **New Auditing Standards**

As noted with this year's required audit changes, there are even more major and comprehensive changes that were made to auditing rules that will impact the District's audits beginning next year. These new auditing standards require significant changes in how audits are done and how the results of the auditor's work are communicated to clients, bringing governmental auditing rules into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

These new rules, which are known collectively as the Risk Assessment Standards, require auditors to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules will also require increased audit testing and more thorough auditing procedures and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Our firm has invested heavily to implement our new audit methodology and train our staff on these changes and will continue to do so over the next several months. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

As we move forward, we will be communicating more specifically about how these matters will affect the District's next financial statement audit. In addition, we plan to begin work with the District's staff during the upcoming year in a number of areas, including review and documentation of internal accounting procedures and controls, to ensure a smooth transition to the new standards.

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about the District's internal accounting and financial reporting processes and controls. We believe that these new rules and the additional communications the board will receive from us about the results of our audit work will enhance the value received from the financial statement audit.

### **Retiree Healthcare Benefits**

Please keep in mind that beginning on July 1, 2009, new accounting rules will require an actuarial valuation to determine the annual contribution that would be necessary to fund retiree healthcare costs over a 30-year period.

While the accounting rules do not (cannot) require you to make any annual contributions to pre-fund this obligation, the liability size will cause the commission to have to debate the merits of funding some or all of the recommended contribution.

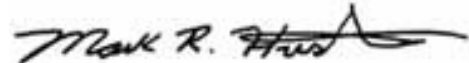
### **Annual Reminder - Reporting Requirements**

As a reminder, the District will need to complete a municipal finance qualifying statement online with the State of Michigan by December 31, 2007. The District should have been given a password to use in this process. Please call us if you would like assistance in filling it out.

We would like to thank you and your staff for the courtesy and cooperation extended to us during the audit. We appreciate the opportunity to serve you as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "Mark R. Hurst", with a stylized flourish at the end.

Mark R. Hurst

A handwritten signature in black ink, appearing to read "Kathryn J. Kercorian", written in a cursive style.

Kathryn J. Kercorian